

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ROCKCASTLE COUNTY FISCAL COURT

June 30, 2007

Christian, Sturgeon & Associates, PSC has completed the audit of the Rockcastle County Fiscal Court for the fiscal year ended June 30, 2007.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information.

Financial Conditions:

The Fiscal Court had total net assets of \$5,230,682 as of June 30, 2007. In its Governmental Activities the Fiscal Court had unrestricted net assets of \$539,727 as of June 30, 2007, with total net assets of \$5,035,864. Total net cash and cash equivalents for the business-type activities were \$123,528.

Report Comments:

- 2007-01 The County Lacks Adequate Segregation Of Duties
- 2007-02 The County Should Promptly Mail All Checks When Issued
- 2007-03 The County Should Maintain Minimum Balance In Their Payroll Account
- 2007-04 The County Should Pay Invoices Within 30 Working Days
- 2007-05 The County Should Properly Account For Encumbrances
- 2007-06 The County Should Budget For All Expenditures

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable George (Buzz) Carloftis, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Rockcastle County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Rockcastle County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Rockcastle County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Rockcastle County, Kentucky, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information on pages 4-11 and 53-55, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable George (Buzz) Carloftis, Rockcastle County Judge/Executive

Members of the Rockcastle County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rockcastle County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2008, on our consideration of Rockcastle County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2007-01 The County Should Pay Invoices Within 30 Working Days
- 2007-02 The County Should Promptly Mail All Checks When Issued
- 2007-03 The County Should Maintain Minimum Balance In Their Payroll Account
- 2007-04 The County Should Properly Account For Encumbrances
- 2007-05 The County Lacks Adequate Segregation Of Duties
- 2007-06 The County Should Budget For All Expenditures

Respectfully submitted,

Christian Sturgeon & Associates, PSC

October 28, 2008

ROCKCASTLE COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

George "Buzz" Carloftis	County Judge/Executive
John Holbrook	Magistrate
Billy R. McKinney	Magistrate
Jan Stevens	Magistrate
Ralph Allen	Magistrate
William Denny	Magistrate

Other Elected Officials:

William D. Reynolds	County Attorney
James E. Miller	Jailer
Norma Houk	County Clerk
Teresa Vanzant	Circuit Court Clerk
Mike Peters	Sheriff
Magaret Offutt	Property Valuation Administrator
Billy Dowell	Coroner

Appointed Personnel:

Joseph B. Clontz	County Treasurer
Patricia Martin	Finance Officer

George “Buzz” Carloftis

Office of the County Judge
P.O. Box 755
Mt. Vernon, Kentucky 40456
(606) 256-2856
RockcastleCountyKy.com

**Management’s Discussion and Analysis
June 30, 2007**

The financial management of Rockcastle County, Kentucky offers readers of Rockcastle County’s financial statements this narrative overview and analysis of the financial activities of Rockcastle County for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Rockcastle County had net assets of \$5,230,682 as of June 30, 2007. The fiscal court had unrestricted net assets of \$539,727 in the governmental activities as of June 30, 2007. In the business-type activities, cash and cash equivalent were \$123,528 with total assets of \$194,818.
- The governmental activities total net assets increased by \$769,120 from the prior year. This increase is primarily due to capital contributions received from the Rockcastle County Sheriff’s Department.
- At the close of the current fiscal year, Rockcastle County governmental activities reported current assets of \$524,319.
- Rockcastle County’s total indebtedness at the close of fiscal year June 30, 2007 was \$3,238,918, of which \$2,774,287 is noncurrent debt (due after 1 year) and \$464,631 is current debt (to be paid within one year). Debt increased \$83,247 for the year. This increase was due to long-term debt agreements entered into by the County.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Rockcastle County’s basic financial statements. Rockcastle County’s basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments, requires management to include certain condensed financial information derived from government-wide financial statements comparing the current year to the prior year. The comparative information includes current and prior year comparisons of program and general revenues by major source, and program expenses by function.

Rockcastle County
Management's Discussion and Analysis
June 30, 2007
(Continued)

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Rockcastle County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Rockcastle County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Rockcastle County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Rockcastle County's governmental activities include general government, protection to persons and property, roads, recreation, social services, debt service, capital projects, and administration. Rockcastle County has one business type activity – Jail Canteen.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Rockcastle County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Rockcastle County can be divided into broad categories: *governmental funds* and *proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Rockcastle County
Management's Discussion and Analysis
June 30, 2007
(Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Rockcastle County maintains (12) twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road Fund
- Jail Fund
- Public Properties Corporation Fund

Non-major Funds:

- Forestry Fund
- Local Government Economic Assistance Fund
- 911 Fund
- Economic Development Fund
- Chemical Stockpile Emergency Preparedness Program Fund
- Fairgrounds Fund
- WMD Fund
- LECP Fund

Rockcastle County adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund, Road Fund, and Jail Fund to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Rockcastle County
Management's Discussion and Analysis
June 30, 2007
(Continued)

Financial Analysis of the County as a Whole

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Rockcastle County's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Assets						
Current and other assets	\$ 907,966	\$ 524,319	\$ 109,632	\$ 123,273	\$ 1,017,598	\$ 647,592
Capital assets	6,833,450	7,775,721	69,285	71,545	6,902,735	7,847,266
Total Assets	7,741,416	8,300,040	178,917	194,818	7,920,333	8,494,858
Liabilities						
Current and other liabilities	690,753	489,889			690,753	489,889
Long-term liabilities	2,783,919	2,774,287			2,783,919	2,774,287
Total Liabilities	3,474,672	3,264,176			3,474,672	3,264,176
Net Assets						
Invested in capital assets, net of related debt	3,578,251	4,251,840	69,285	71,545	3,647,536	4,323,385
Restricted for debt service		244,297				244,297
Unrestricted	688,493	539,727	109,632	123,273	798,125	663,000
Total Net Assets	\$ 4,266,744	\$ 5,035,864	\$ 178,917	\$ 194,818	\$ 4,445,661	\$ 5,230,682

The largest portion of the County's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The County uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Rockcastle County
Management's Discussion and Analysis
June 30, 2007
(Continued)

Table 2
Rockcastle County's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Program Revenues						
Charges for Services	\$ 817,606	\$ 740,477	\$ 136,226	\$ 101,522	\$ 953,832	\$ 841,999
Operating Grants and Contributions	2,223,414	2,474,838			2,223,414	2,474,838
Capital Grants and Contributions	15,486	138,408			15,486	138,408
General Revenues						
Taxes	979,635	1,276,279			979,635	1,276,279
Miscellaneous and Other	162,820	253,515	285	531	163,105	254,046
Total Revenue	4,198,961	4,883,517	136,511	102,053	4,335,472	4,985,570
Expenses						
General Government	1,355,484	1,145,732			1,355,484	1,145,732
Protection to Persons and Property	1,064,476	1,277,471			1,064,476	1,277,471
General Health and Sanitation	112,983	303,128			112,983	303,128
Social Services	18,130	10,545			18,130	10,545
Recreation and Culture	39,965	21,617			39,965	21,617
Roads	474,536	520,264			474,536	520,264
Interest on Long-term Debt	201,223	313,041			201,223	313,041
Administration		522,599				522,599
Jail Canteen			113,412	86,152	113,412	86,152
Total Expenses	3,266,797	4,114,397	113,412	86,152	3,380,209	4,200,549
Change In Net Assets	932,164	769,120	23,099	15,901	955,263	785,021
Net Assets - Beginning	3,334,580	4,266,744	155,818	178,917	3,490,398	4,445,661
Net Assets - Ending	\$ 4,266,744	\$ 5,035,864	\$ 178,917	\$ 194,818	\$ 4,445,661	\$ 5,230,682

**Rockcastle County
Management's Discussion and Analysis
June 30, 2007
(Continued)**

Financial Analysis of the County's Funds

As noted earlier, Rockcastle County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds Overview. The focus of Rockcastle County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 30, 2007 fiscal year, the combined ending fund balances of County governmental funds were \$479,150. All \$479,150 of this consists of unreserved fund balances, which are available as working capital and for current spending in accordance with the purposes of the specific funds.

The County has (4) four major and (8) eight non-major governmental funds, as list on page 6.

1. The General Fund is the chief operating fund of Rockcastle County. At the end of the June 30, 2007 fiscal year, unreserved fund balance of the General Fund was \$67,163. The General Fund receipted \$871,854 in real and personal property, motor vehicle, and other taxes for approximately 54% of the County's general fund revenues.
2. The Road Fund is the fund related to County road and bridge construction and maintenance. The Road Fund had a \$75,342 fund balance at June 30, 2007. The fiscal year 2007 expenditures for Road Fund were \$1,791,721.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a deficit balance at June 30, 2007 of \$7,899. The Jail Fund received \$1,653,977 from intergovernmental agencies, primarily for housing prisoners.
4. The Public Properties Corporation Fund had a fund balance of \$244,297 as of June 30, 2007. This fund is used to account for debt service requirements of the County.
5. The 911 Fund at the end of June 30, 2007 fiscal year, had a fund balance of \$10,434.
6. The WMD Fund at the end of June 30, 2007, had a fund balance of \$1,665.
7. The Local Governments Economic Assistance Fund had a balance of \$42,767 as of June 30, 2007.

**Rockcastle County
Management's Discussion and Analysis
June 30, 2007
(Continued)**

Financial Analysis of the County's Funds (Continued)

Governmental Funds Overview (Continued)

8. The Forestry Fund had a balance of \$543 as of June 30, 2007 and is used to account for forest fire tax receipts. Expenditures of \$2,596 were spent for protection to persons and property.
9. The Local Government Economic Development Fund had a fund balance of \$24,687 as of June 30, 2007.
10. The Chemical Stockpile Emergency Preparedness Program Fund received intergovernmental funds of \$98,098 and expended \$96,902 for protections to persons and property and fringe benefits. The CSEPP Fund had a fund balance of \$10,954 as of June 30, 2007.
11. The Fairgrounds Fund had a fund balance of \$7,233 as of June 30, 2007.
12. The LECP Fund had a balance of \$1,964 as of June 30, 2007.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Rockcastle County has one (1) enterprise proprietary fund, it is:

- Jail Canteen Fund

The Jail Canteen Fund's unrestricted net assets at the end of June 30, 2007 fiscal year, amounted to \$194,818 which also totaled net assets.

General Fund Budgetary Highlights

Rockcastle County's General Fund budget was amended during the fiscal year increasing the budgeted amount to \$1,800,192. Budget amendments were made to various expenditures due to increases in intergovernmental revenue, surplus cash carried forward, and an increase in actual tax revenue.

Capital Assets and Debt Administration

Capital Assets. Rockcastle County's investment in capital assets for its government and business type activities as of June 30, 2007, amount to \$7,714,740 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, furniture and equipment, vehicles and current infrastructure additions. Rockcastle County has elected to report infrastructure assets per GASB 34 provisions.

Additional information on the County's capital assets can be found in Note 6 of this report.

**Rockcastle County
Management's Discussion and Analysis
June 30, 2007
(Continued)**

Capital Assets and Debt Administration (Continued)

**Table 3
Rockcastle County's Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Infrastructure						
Assets	\$ 1,339,522	\$ 2,205,497	\$	\$	\$ 1,339,522	\$ 2,205,497
Land	410,000	410,000			410,000	410,000
Land						
Improvements	12,847	11,692			12,847	11,692
Buildings and						
Improvements	3,989,132	3,917,284			3,989,132	3,917,284
Furniture and						
Equipment	632,141	700,130	9,336	13,754	641,477	713,884
Vehicles	297,370	398,592	59,949	57,791	357,319	456,383
Total Net Capital						
Assets	<u>\$ 6,681,012</u>	<u>\$ 7,643,195</u>	<u>\$ 69,285</u>	<u>\$ 71,545</u>	<u>\$ 6,750,297</u>	<u>\$ 7,714,740</u>

Long-Term Debt. At the end of the 2007 fiscal year, Rockcastle County had total bonded debt and capital leases outstanding of \$3,238,918. Additional information on the County's debt can be found in Notes 7, 8, and 9 of this report.

Other Matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2008 fiscal year budget:

- The 2008 fiscal year adopted budget continues most services at current levels.
- Program cuts at the State level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for county programs.
- The County enacted a 1 ½ % occupational tax effective July 1, 2008.

Requests For Information

This financial report is designed to provide a general overview of Rockcastle County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided herein or requests for additional financial information should be addressed to the Rockcastle County Treasurer, P.O. Box 755, Mt. Vernon, KY 40456.

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ROCKCASTLE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

ROCKCASTLE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 504,153	\$ 123,528	\$ 627,681
Notes Receivable Due			
Within One Year	19,911		19,911
Internal Balances	255	(255)	
Total Current Assets	524,319	123,273	647,592
Noncurrent Assets:			
Notes Receivable Due In			
More Than One Year	132,526		132,526
Capital Assets - Net of Accumulated			
Depreciation			
Land	410,000		410,000
Land Improvements	11,692		11,692
Buildings and Improvements	3,917,284		3,917,284
Furniture and Equipment	700,130	13,754	713,884
Vehicles	398,592	57,791	456,383
Infrastructure Assets	2,205,497		2,205,497
Total Noncurrent Assets	7,775,721	71,545	7,847,266
Total Assets	8,300,040	194,818	8,494,858
LIABILITIES			
Current Liabilities:			
Bank Overdrafts	25,258		25,258
Financing Obligations, Bonds,			
and Notes Payable	464,631		464,631
Total Current Liabilities	489,889		489,889
Noncurrent Liabilities:			
Financing Obligations, Bonds			
and Notes Payable	2,774,287		2,774,287
Total Noncurrent Liabilities	2,774,287		2,774,287
Total Liabilities	3,264,176		3,264,176
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	4,251,840	71,545	4,323,385
Restricted For:			
Debt Service	244,297		244,297
Unrestricted	539,727	123,273	663,000
Total Net Assets	\$ 5,035,864	\$ 194,818	\$ 5,230,682

The accompanying notes are an integral part of the financial statements.

ROCKCASTLE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

ROCKCASTLE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,145,732	\$	\$ 745,692	\$ 138,408
Protection to Persons and Property	1,277,471	740,477	309,650	
General Health and Sanitation	303,128			
Social Services	10,545			
Recreation and Culture	21,617			
Roads	520,264		1,419,496	
Debt Service	313,041			
Administration	522,599			
Total Governmental Activities	4,114,397	740,477	2,474,838	138,408
Business-type Activities:				
Jail Canteen	86,152	101,522		
Total Business-type Activities	86,152	101,522		
Total Primary Government	\$ 4,200,549	\$ 841,999	\$ 2,474,838	\$ 138,408

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

ROCKCASTLE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (261,632)	\$	\$ (261,632)
(227,344)		(227,344)
(303,128)		(303,128)
(10,545)		(10,545)
(21,617)		(21,617)
899,232		899,232
(313,041)		(313,041)
(522,599)		(522,599)
<u>(760,674)</u>		<u>(760,674)</u>
	15,370	15,370
	<u>15,370</u>	<u>15,370</u>
<u>(760,674)</u>	<u>15,370</u>	<u>(745,304)</u>
262,667		262,667
32,418		32,418
302,450		302,450
678,744		678,744
64,010		64,010
17,227		17,227
172,278	531	172,809
<u>1,529,794</u>	<u>531</u>	<u>1,530,325</u>
769,120	15,901	785,021
<u>4,266,744</u>	<u>178,917</u>	<u>4,445,661</u>
<u>\$ 5,035,864</u>	<u>\$ 194,818</u>	<u>\$ 5,230,682</u>

The accompanying notes are an integral part of the financial statements.

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ROCKCASTLE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

ROCKCASTLE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Jail Fund	Public Properties Corporation Fund
ASSETS				
Cash and Cash Equivalents	\$ 94,671	\$ 86,509	\$	\$ 244,297
Due From Other Funds		1,843	17,359	
Total Assets	<u>\$ 94,671</u>	<u>\$ 88,352</u>	<u>\$ 17,359</u>	<u>\$ 244,297</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Bank Overdrafts	\$	\$	\$ 25,258	\$
Due to Other Funds	<u>27,508</u>	<u>13,010</u>		
Total Liabilities	<u>27,508</u>	<u>13,010</u>	<u>25,258</u>	
FUND BALANCES				
Unreserved:				
General Fund	67,163			
Special Revenue Funds		75,342	(7,899)	
Debt Service Fund				244,297
Total Fund Balance (Deficit)	<u>67,163</u>	<u>75,342</u>	<u>(7,899)</u>	<u>244,297</u>
Total Liabilities and Fund Balances	<u>\$ 94,671</u>	<u>\$ 88,352</u>	<u>\$ 17,359</u>	<u>\$ 244,297</u>

The accompanying notes are an integral part of the financial statements.

ROCKCASTLE COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

(Continued)

Non- Major Funds	Total Governmental Funds
\$ 78,676	\$ 504,153
21,571	40,773
<u>\$ 100,247</u>	<u>\$ 544,926</u>

\$	\$ 25,258
<u> </u>	<u>40,518</u>
<u> </u>	<u>65,776</u>

100,247	67,163
<u>100,247</u>	<u>167,690</u>
<u>100,247</u>	<u>244,297</u>
<u>100,247</u>	<u>479,150</u>
<u>\$ 100,247</u>	<u>\$ 544,926</u>

Reconciliation to Statement of Changes In Net Assets:

Total Fund Balances	\$ 479,150
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	9,926,301
Depreciation	(2,283,106)
Current Receivable for Western Rockcastle Waterline Project	19,911
Non-current Receivable for Western Rockcastle Waterline Project	132,526
Long-term Debt is Not Due And Payable in the Current Period And, Therefore, Is Not Reported in the Funds.	
Due Within One Year - Bonds, Notes, And Other Principal Payments	(464,631)
Due in More Than One Year - Bonds, Notes, And Other Principal Payments	<u>(2,774,287)</u>
Net Assets Of Governmental Activities	<u>\$ 5,035,864</u>

The accompanying notes are an integral part of the financial statements.

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ROCKCASTLE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

ROCKCASTLE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road Fund	Jail Fund	Public Properties Corporation Fund
REVENUES				
Taxes	\$ 871,584	\$	\$	\$
In Lieu Tax Payments	19,652			
Excess Fees	64,010			
Licenses and Permits	21,168			
Intergovernmental	558,941	1,653,977	777,736	
Charges for Services	12,289		16,310	
Miscellaneous	45,735	14,482	44,782	150,770
Interest	2,280	1,190	848	11,015
Total Revenues	<u>1,595,659</u>	<u>1,669,649</u>	<u>839,676</u>	<u>161,785</u>
EXPENDITURES				
General Government	836,371			
Protection to Persons and Property	137,954		732,085	
General Health and Sanitation	226,275			
Social Services	10,545			
Recreation and Culture	7,985			
Roads		1,454,656		
Debt Service	41,412	197,950	108,955	1,830,266
Administration	226,560	139,115	111,670	
Total Expenditures	<u>1,487,102</u>	<u>1,791,721</u>	<u>952,710</u>	<u>1,830,266</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>108,557</u>	<u>(122,072)</u>	<u>(113,034)</u>	<u>(1,668,481)</u>
Other Financing Sources (Uses)				
Bond Issuance				1,665,000
Transfers From Other Funds	225,335	200,000	110,124	15,368
Transfers To Other Funds	(276,088)	(250,335)	(25,000)	
Total Other Financing Sources (Uses)	<u>(50,753)</u>	<u>(50,335)</u>	<u>85,124</u>	<u>1,680,368</u>
Net Change in Fund Balances	57,804	(172,407)	(27,910)	11,887
Fund Balances - Beginning (Restated)	9,359	247,749	20,011	232,410
Fund Balances (Deficit) - Ending	<u>\$ 67,163</u>	<u>\$ 75,342</u>	<u>\$ (7,899)</u>	<u>\$ 244,297</u>

The accompanying notes are an integral part of the financial statements.

ROCKCASTLE COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 149,046	\$ 1,020,630
	19,652
	64,010
	21,168
317,494	3,308,148
	28,599
29,242	285,011
1,894	17,227
<u>497,676</u>	<u>4,764,445</u>
276,759	1,113,130
329,417	1,199,456
76,853	303,128
	10,545
13,632	21,617
	1,454,656
35,211	2,213,794
45,254	522,599
<u>777,126</u>	<u>6,838,925</u>
<u>(279,450)</u>	<u>(2,074,480)</u>
	1,665,000
596	551,423
	<u>(551,423)</u>
<u>596</u>	<u>1,665,000</u>
(278,854)	(409,480)
379,101	888,630
<u>\$ 100,247</u>	<u>\$ 479,150</u>

The accompanying notes are an integral part of the financial statements.

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**ROCKCASTLE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

ROCKCASTLE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (409,480)
<p>Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital Outlay	1,237,440
Depreciation Expense	(275,257)
The proceeds of receipts of accounts receivable provide current financial resources and are reported in this fund financial statement but they are presented as a reduction of assets in the Statement of Net Assets.	(19,336)
The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.	
Bond Issuance	(1,665,000)
KACO, KIA and KADD financing obligations and bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets.	1,900,753
Change in Net Assets of Governmental Activities	<u>\$ 769,120</u>

The accompanying notes are an integral part of the financial statements.

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ROCKCASTLE COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

ROCKCASTLE COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 123,528
Total Current Assets	<u>123,528</u>
Noncurrent Assets:	
Capital Assets:	
Furniture and Equipment	21,004
Vehicles	102,162
Less Accumulated Depreciation	<u>(51,621)</u>
Total Noncurrent Assets	<u>71,545</u>
Total Assets	<u>195,073</u>
Liabilities	
Due to Other Funds	<u>255</u>
Total Liabilities	<u>255</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	71,545
Unrestricted	<u>123,528</u>
Total Net Assets	<u>\$ 195,073</u>

The accompanying notes are an integral part of the financial statements.

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ROCKCASTLE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

ROCKCASTLE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 101,522
Total Operating Revenues	<u>101,522</u>
Operating Expenses	
Cost of Sales	63,153
Educational and Recreational	2,288
Depreciation	18,899
Miscellaneous	1,812
Total Operating Expenses	<u>86,152</u>
Operating Income	<u>15,370</u>
Nonoperating Revenues	
Interest Income	531
Total Nonoperating Revenues	<u>531</u>
Change In Net Assets	15,901
Total Net Assets - Beginning	178,917
Total Net Assets - Ending	<u><u>\$ 194,818</u></u>

The accompanying notes are an integral part of the financial statements.

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ROCKCASTLE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

ROCKCASTLE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 101,522
Cost of Sales	(63,153)
Educational and Recreational	(2,288)
Miscellaneous	(1,812)
Net Cash Provided By Operating Activities	<u>34,269</u>
Cash Flows From Capital and Related Financing Activities	
Purchases of Fixed Assets	(21,159)
Net Cash (Used) in Capital and Related Financing Activities	<u>(21,159)</u>
Cash Flows From Investing Activities	
Interest Earned	<u>531</u>
Net Cash Provided By Investing Activities	<u>531</u>
Net Increase in Cash and Cash Equivalents	13,641
Cash and Cash Equivalents - July 1, 2006	<u>109,887</u>
Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 123,528</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 15,370
Adjustment to Reconcile Operating Income To Net Cash Provided By Operating Activities	
Depreciation Expense	<u>18,899</u>
Net Cash Provided By Operating Activities	<u><u>\$ 34,269</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

Rockcastle County presents its government wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the County to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Rockcastle County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusions would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All others component units are discretely presented.

Blended Component Unit

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on these organizations. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Rockcastle County Public Properties Corporation

The Fiscal Court has the authority to appoint a voting majority of the Public Properties Corporation's (PPC) Board of Directors. The Fiscal Court also has the ability to approve or modify the PPC's budget; approve or modify rate of fee changes affecting revenues; veto, overrule, or modify decisions of the Board of Directors; or otherwise impose its will on the PPC. In addition, the Fiscal Court is financially accountable for the PPC, legally entitled to the PPC's resources, and legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Rockcastle County's financial statements.

C. Rockcastle County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Rockcastle County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Rockcastle County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff
- Coroner

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Fiduciary Funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

The statement of net assets and the statement of activities display information about the County as a whole. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Fiscal Court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - This fund is used to account for the jail expenses of the County. The primary sources of revenue for this fund are reimbursements from the state and federal government, from other counties for housing prisoners, and transfers from other funds. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Fund - This fund is a legally separate entity established to provide long-term debt service requirements of the Fiscal Court.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The government also has the following non-major funds: Forestry Fund, LGEA Fund, CSEPP Fund, 911 Fund, Economic Development Fund, Fairgrounds Fund, WMD Fund and LECP Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the County's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 1,500	10-75
Buildings and Building Improvements	\$ 1,000	10-60
Machinery and Equipment	\$ 1,000	2-10
Vehicles	\$ 1,000	10-25
Infrastructure	\$ 1,000	10-60

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the other funds to comply with these requirements. In addition, a formal budget for the Jail Canteen Fund is not adopted nor is it required by the Department for Local Government.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on the criteria the following are considered related organizations of Rockcastle County Fiscal Court: the Rockcastle County Ambulance Service, the Western Rockcastle County Water Association, the Eastern Rockcastle County Water Association, and the Industrial Development Authority.

Note 2. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and an official record of the depository institution.

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Long-Term Receivables

On June 1, 1994, Rockcastle County loaned Western Rockcastle County Water Association \$364,572 for the purpose of constructing a water line. The loan was for a period of 20 years at 2.95 percent interest with 40 equal semi-annual payments in the amount of \$12,131. As of June 30, 2007 records indicate that Western Rockcastle County Water Association was in substantial compliance with the terms of the loan agreement. The principal balance due at June 30, 2007 was \$152,437.

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2008	\$ 4,351	\$ 19,911
2009	3,760	20,502
2010	3,150	21,112
2011	2,523	21,739
2012	1,876	22,386
2013-2014	1,737	46,787
Totals	<u>\$ 17,397</u>	<u>\$ 152,437</u>

Note 4. Interfund Balances

<u>Due to</u>	<u>Due From</u>	<u>Amount</u>
Road Fund	General Fund	\$ 1,843
Jail Fund	General Fund	4,094
Jail Fund	Road Fund	13,010
Jail Fund	Jail Canteen Fund	255
Economic Development	General Fund	21,571

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Decreases
Primary Government:			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 410,000	\$	\$ 410,000
Capital Assets, Being Depreciated:			
Land Improvements	13,881		13,881
Buildings and Improvements	4,747,226		4,747,226
Furniture and Equipment	1,415,016	175,771	1,590,787
Vehicles	710,880	158,828	869,708
Infrastructure	1,391,858	902,841	2,294,699
Total Capital Assets Being Depreciated	8,278,861	1,237,440	9,516,301
Less Accumulated Depreciation For:			
Land Improvements	(1,034)	(1,155)	(2,189)
Buildings and Improvements	(758,094)	(71,848)	(829,942)
Furniture and Equipment	(782,875)	(107,782)	(890,657)
Vehicles	(413,510)	(57,606)	(471,116)
Infrastructure	(52,336)	(36,866)	(89,202)
Total Accumulated Depreciation	(2,007,849)	(275,257)	(2,283,106)
Total Capital Assets, Being Depreciated, Net	6,271,012	962,183	7,233,195
Governmental Activities Capital Assets, Net	<u>\$ 6,681,012</u>	<u>\$ 962,183</u>	<u>\$ 7,643,195</u>
<u>Business-Type Activities:</u>			
Capital Assets, Being Depreciated:			
Furniture and Equipment	\$ 13,845	\$ 7,159	\$ 21,004
Vehicles	88,162	14,000	102,162
Total Capital Assets Being Depreciated	102,007	21,159	123,166
Less Accumulated Depreciation For:			
Furniture and Equipment	(4,510)	(2,740)	(7,250)
Vehicles	(28,212)	(16,159)	(44,371)
Total Accumulated Depreciation	(32,722)	(18,899)	(51,621)
Total Capital Assets, Being Depreciated, Net	69,285	2,260	71,545
Business-Type Activities Capital Assets, Net	<u>\$ 69,285</u>	<u>\$ 2,260</u>	<u>\$ 71,545</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 136,775
Protection to Persons and Property	78,015
Roads, Including Depreciation of General Infrastructure Assets	<u>60,467</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 275,257</u>

Business-Type Activities

Jail Canteen	<u>\$ 18,899</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 18,899</u>

Note 6. Long-term Debt

A. Public Properties First Mortgage Refunding Revenue Bonds, Series 1997

The Rockcastle County Public Properties Corporation issued obligations of \$1,830,000, dated October 1, 1997 and payable in 15 annual installments beginning March 1, 1998 and semi-annual interests payments on the first of March and September at varying rates from 4.60% to 5.90%. The bonds were issued for the purpose of refunding the Series 1991 bonds issued by Rockcastle County Public Properties Corporation. As of June 30, 2007, bonds outstanding were \$950,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 125,000	\$ 44,535
2009	130,000	38,350
2010	135,000	31,790
2011	145,000	24,791
2012	150,000	17,340
2013	<u>265,000</u>	<u>6,758</u>
Totals	<u>\$ 950,000</u>	<u>\$ 163,564</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

B. General Obligation Refunding Bonds, Series 2007

The Rockcastle County Fiscal Court issued obligations of \$1,325,000, dated April 12, 2007 and payable in 19 annual installments beginning June 1, 2007 and semi-annual interest payments on the first of June and December at varying rates from 4.1% to 4.55%. The Fiscal Court issued the bonds for the purpose of refinancing the Kentucky Area Development Districts Financing Trust Debt, issued for the purpose of refinancing jail renovations and a fire truck for Brindle Ridge Fire Department. As of June 30, 2007, bonds outstanding were \$1,270,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 50,000	\$ 55,863
2009	50,000	53,813
2010	55,000	51,762
2011	55,000	49,453
2012	60,000	47,142
2013-2017	330,000	195,736
2018-2022	400,000	116,396
2023-2025	270,000	24,570
Totals	<u>\$ 1,270,000</u>	<u>\$ 594,735</u>

C. Note Payable - KIA

On June 1, 1994, Rockcastle County borrowed \$364,572 from the Kentucky Infrastructure Authority for the purpose of constructing a water line for the Western Rockcastle Water Association. The loan was for a period of 20 years at 2.95 percent interest with 40 equal semi-annual payments in the amount of \$12,131. The principal balance due at June 30, 2007 was \$152,437.

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 19,911	\$ 4,351
2009	20,502	3,758
2010	21,112	3,150
2011	21,739	2,523
2012	22,386	1,877
2013-2014	46,787	1,737
Totals	<u>\$ 152,437</u>	<u>\$ 17,396</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

D. Financing Obligation - Boiler Lease

On March 27, 2000, Rockcastle County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$28,755 to purchase a boiler. Principal and interest at variable rates is paid monthly for a period of 10 years. The principal balance due at June 30, 2007 was \$9,106. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 3,131	\$ 395
2009	3,220	183
2010	2,755	51
Totals	<u>\$ 9,106</u>	<u>\$ 629</u>

E. Financing Obligation - Building and Fire Equipment Lease

On January 23, 2003, Rockcastle County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$55,000 to purchase fire equipment. Principal and interest at a rate of 3.96 percent is paid monthly for a period of 15 years. The principal balance due at June 30, 2007 was \$43,603. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 3,168	\$ 2,006
2009	3,307	1,852
2010	3,453	1,693
2011	3,604	1,527
2012	3,762	1,352
2013-2017	21,440	3,871
2018	4,869	134
Totals	<u>\$ 43,603</u>	<u>\$ 12,435</u>

F. Financing Obligation - Fire Truck Lease

On March 22, 2002, Rockcastle County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$47,500 to purchase a fire truck. Principal and interest at a variable rate is paid monthly for a period of 7 years. The principal balance due at June 30, 2007 was \$13,670. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 7,304	\$ 513
2009	6,366	126
Totals	<u>\$ 13,670</u>	<u>\$ 639</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

G. Financing Obligation - 911 System Lease

On March 27, 2000, Rockcastle County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$179,285 to purchase a 911 system. Principal and interest at a variable rate is paid monthly for a period of 10 years. The principal balance due at June 30, 2007 was \$57,373. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 19,725	\$ 2,489
2009	20,292	1,152
2010	17,356	325
Totals	<u>\$ 57,373</u>	<u>\$ 3,966</u>

H. Financial Obligation - Bridge Construction Lease

On April 24, 2002, Rockcastle County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$480,000 bridge construction. Principal and interest at a variable rate is paid monthly for a period of 7 years. The principal balance due at June 30, 2007 was \$144,226. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest & Fees
2008	\$ 73,555	\$ 5,474
2009	70,671	1,499
Totals	<u>\$ 144,226</u>	<u>\$ 6,973</u>

I. Financing Obligation - Industrial Development Authority Lease

In January 2006, Rockcastle County began making payments on a lease agreement between the Industrial Development Authority and Kentucky Association of Counties Leasing Trust. Principal and interest at a rate of 2.75 percent is paid monthly. The lease matures on April 20, 2013. The principal balance due at June 30, 2007 was \$62,832. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 9,535	\$ 2,910
2009	10,015	2,432
2010	10,518	1,931
2011	11,047	1,405
2012	11,603	854
2013	10,114	270
Totals	<u>\$ 62,832</u>	<u>\$ 9,802</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

J. Financing Obligation - Road and Bridge Improvements Lease

On November 19, 1998, Rockcastle County entered into a lease agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$755,000 to make certain road and bridge improvements and to pay in full certain outstanding indebtedness which had also been used to make necessary road improvements. Principal is paid annually and interest, at a variable rate, is paid semi-annually for a period of 10 years. The principal balance due at June 30, 2007 was \$185,000. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 90,000	\$ 7,350
2009	95,000	2,494
Totals	<u>\$ 185,000</u>	<u>\$ 9,844</u>

K. Financing Obligation - 911 Dictaphone Lease

In January 1998, Rockcastle County entered into a lease agreement with Fleetwood Financial in the amount of \$17,849 to purchase a dictaphone for 911. Principal and interest at a rate of 7.5 percent is paid annually for a period of 4 years. The principal balance due at June 30, 2007 was \$10,671. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 3,302	\$ 805
2009	3,551	556
2010	3,818	288
Totals	<u>\$ 10,671</u>	<u>\$ 1,649</u>

L. Financing Obligations - KADD Lease

On June 1, 2007, Rockcastle County entered into a lease agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$340,000 to pay a short-term note at Citizens Bank and to purchase an ambulance for the Ambulance Service. Principal is paid annually and interest, at a rate of 4.25 percent, is paid semi-annually for a period of 5 years. The principal balance due at June 30, 2007 was \$340,000. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2008	\$ 60,000	\$ 14,330
2009	65,000	11,900
2010	70,000	9,137
2011	70,000	6,163
2012	75,000	3,187
Totals	<u>\$ 340,000</u>	<u>\$ 44,717</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 7. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Bonds	\$ 1,236,773	\$ 1,325,000	\$ 189,336	\$ 2,372,437	\$ 194,911
Financing Obligations	<u>1,918,898</u>	<u>340,000</u>	<u>1,392,417</u>	<u>866,481</u>	<u>269,720</u>
Governmental Activities Long-term Liabilities	<u>\$ 3,155,671</u>	<u>\$ 1,665,000</u>	<u>\$ 1,581,753</u>	<u>\$ 3,238,918</u>	<u>\$ 464,631</u>

Note 8. Related Party Transactions

The Rockcastle County Fiscal Court conducted business with Broadhead Farm Equipment, which is owned by Magistrate Bill McKinney's brother. The County purchased equipment and parts from Broadhead Farm Equipment for the fiscal year ended June 30, 2007. In addition, the Fiscal Court paid the County Treasurer's accounting firm to perform payroll and other services for the County. These transactions are considered to be related party transactions.

Note 9. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for non-hazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The County's contribution rate for hazardous employees was 28.21 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

The County's required contributions for pension obligations to CERS for the fiscal year ended June 30, 2007 were \$221,405; 100% has been contributed for fiscal year 2007.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 10. Deferred Compensation

Rockcastle County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at 502-573-7925.

Note 11. Insurance

For the fiscal year ended June 30, 2007, Rockcastle County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the member, the members are responsible for the payment of the excess losses,

Note 12. Subsequent Events

The County experienced a budget shortfall for the year ended June 30, 2008.
The County enacted a 1 ½% occupational tax beginning July 1, 2008.

Note 13. Prior Period Adjustment

Beginning fund balance for the general fund has been restated due to notes receivable related to debt recorded in the prior year.

Beginning fund balance for the general fund reconciles to the previously reported fund balance at June 30, 2006, as follows:

Fund balance as previously reported	\$ 181,133
Note receivable	<u>(171,774)</u>
Restated Fund Balance - June 30, 2006	<u><u>\$ 9,359</u></u>

Note 14. Deficit Fund Balance - Jail Fund

The Rockcastle County Fiscal Court ended the fiscal year ended June 30, 2007 with a deficit balance of \$7,899 in the Jail Fund.

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 842,727	\$ 880,584	\$ 871,584	\$ (9,000)
In Lieu Tax Payments	18,700	18,700	19,652	952
Excess Fees	3,200	59,723	64,010	4,287
Licenses and Permits	10,800	21,189	21,168	(21)
Intergovernmental Revenue	291,690	762,855	558,941	(203,914)
Charges for Services	14,500	14,985	12,289	(2,696)
Miscellaneous	3,300	34,315	45,735	11,420
Interest	6,800	7,841	2,280	(5,561)
Total Revenues	<u>1,191,717</u>	<u>1,800,192</u>	<u>1,595,659</u>	<u>(204,533)</u>
EXPENDITURES				
General Government	658,267	879,140	836,371	42,769
Protection to Persons and Property	92,995	145,995	137,954	8,041
General Health and Sanitation	198,670	263,267	226,275	36,992
Social Services	6,000	16,100	10,545	5,555
Recreation and Culture	16,000	16,150	7,985	8,165
Debt Service	58,685	61,151	41,412	19,739
Administration	186,100	480,256	226,560	253,696
Total Expenditures	<u>1,216,717</u>	<u>1,862,059</u>	<u>1,487,102</u>	<u>374,957</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(25,000)</u>	<u>(61,867)</u>	<u>108,557</u>	<u>170,424</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds				
Transfers To Other Funds			(50,753)	(50,753)
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>(50,753)</u>	<u>(50,753)</u>
Net Changes in Fund Balance	(25,000)	(61,867)	57,804	119,671
Fund Balance - Beginning	<u>25,000</u>	<u>61,867</u>	<u>9,359</u>	<u>(52,508)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 67,163</u>	<u>\$ 67,163</u>

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 993,290	\$ 1,622,198	\$ 1,653,977	\$ 31,779
Miscellaneous	1,000	13,890	14,482	592
Interest		1,250	1,190	(60)
Total Revenues	994,290	1,637,338	1,669,649	32,311
EXPENDITURES				
Roads	671,800	1,529,547	1,454,656	74,891
Debt Service	215,070	200,071	197,950	2,121
Administration	157,420	166,636	139,115	27,521
Total Expenditures	1,044,290	1,896,254	1,791,721	104,533
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(50,000)	(258,916)	(122,072)	136,844
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds			(50,335)	(50,335)
Total Other Financing Sources (Uses)			(50,335)	(50,335)
Net Changes in Fund Balance	(50,000)	(258,916)	(172,407)	86,509
Fund Balance - Beginning	50,000	258,916	247,749	(11,167)
Fund Balance - Ending	\$ 0	\$ 0	\$ 75,342	\$ 75,342

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 840,774	\$ 859,972	\$ 777,736	\$ (82,236)
Charges for Services	16,000	20,385	16,310	(4,075)
Miscellaneous	25,200	46,703	44,782	(1,921)
Interest	1,000	1,000	848	(152)
Total Revenues	882,974	928,060	839,676	(88,384)
EXPENDITURES				
Protection to Persons and Property	661,283	729,286	732,085	(2,799)
Debt Service	102,240	108,955	108,955	
Administration	129,451	113,836	111,670	2,166
Total Expenditures	892,974	952,077	952,710	(633)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(10,000)	(24,017)	(113,034)	(89,017)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			85,124	(85,124)
Total Other Financing Sources (Uses)			85,124	(85,124)
Net Changes in Fund Balance	(10,000)	(24,017)	(27,910)	(3,893)
Fund Balance - Beginning	10,000	24,017	20,011	(4,006)
Fund Balance - Ending	\$ 0	\$ 0	\$ (7,899)	\$ (7,899)

ROCKCASTLE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**ROCKCASTLE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2007

ROCKCASTLE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	LGEA Fund	Forestry Fund	Economic Development Fund	911 Fund	CSEPP Fund
ASSETS					
Cash and Cash Equivalents	\$ 42,767	\$ 543	\$ 3,116	\$ 10,434	\$ 10,954
Due From Other Funds			21,571		
Total Assets	<u>\$ 42,767</u>	<u>\$ 543</u>	<u>\$ 24,687</u>	<u>\$ 10,434</u>	<u>\$ 10,954</u>
FUND BALANCES					
Unreserved:					
Special Revenue Funds	<u>\$ 42,767</u>	<u>\$ 543</u>	<u>\$ 24,687</u>	<u>\$ 10,434</u>	<u>\$ 10,954</u>
Total Fund Balances	<u>\$ 42,767</u>	<u>\$ 543</u>	<u>\$ 24,687</u>	<u>\$ 10,434</u>	<u>\$ 10,954</u>

ROCKCASTLE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2007
(Continued)

WMD Fund	LECP Fund	Fairgrounds Fund	Total Non-Major Governmental Funds
\$ 1,665	\$ 1,964	\$ 7,233	\$ 78,676 21,571
<u>\$ 1,665</u>	<u>\$ 1,964</u>	<u>\$ 7,233</u>	<u>\$ 100,247</u>
<u>\$ 1,665</u>	<u>\$ 1,964</u>	<u>\$ 7,233</u>	<u>\$ 100,247</u>
<u>\$ 1,665</u>	<u>\$ 1,964</u>	<u>\$ 7,233</u>	<u>\$ 100,247</u>

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ROCKCASTLE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

ROCKCASTLE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	LGEA Fund	Forestry Fund	Economic Development Fund	911 Fund
REVENUES				
Taxes	\$	\$	\$	\$ 149,046
Intergovernmental	217,803	1,593		
Miscellaneous	519		3,063	11,828
Interest	1,294	22	497	81
Total Revenues	<u>219,616</u>	<u>1,615</u>	<u>3,560</u>	<u>160,955</u>
EXPENDITURES				
General Government	26,238		250,521	
Protection to Persons and Property	109,547	2,596		133,518
General Health and Sanitation	76,853			
Recreation and Culture				
Debt Service	13,222		12,439	9,550
Administration	17,810		52	14,246
Total Expenditures	<u>243,670</u>	<u>2,596</u>	<u>263,012</u>	<u>157,314</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(24,054)</u>	<u>(981)</u>	<u>(259,452)</u>	<u>3,641</u>
Other Financing Sources				
Transfers From Other Funds		596		
Total Other Financing Sources		<u>596</u>		
Net Change in Fund Balances	(24,054)	(385)	(259,452)	3,641
Fund Balances - Beginning	66,821	928	284,139	6,793
Fund Balances - Ending	<u>\$ 42,767</u>	<u>\$ 543</u>	<u>\$ 24,687</u>	<u>\$ 10,434</u>

ROCKCASTLE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007
(Continued)

CSEPP Fund	WMD Fund	LECP Fund	Fairgrounds Fund	Total Non-Major Governmental Funds
\$	\$	\$	\$	\$
98,098				149,046
		740	13,092	317,494
				29,242
				1,894
98,098		740	13,092	497,676
				276,759
83,756				329,417
				76,853
			13,632	13,632
				35,211
13,146				45,254
96,902			13,632	777,126
1,196		740	(540)	(279,450)
				596
				596
1,196		740	(540)	(278,854)
9,758	1,665	1,224	7,773	379,101
\$ 10,954	\$ 1,665	\$ 1,964	\$ 7,233	\$ 100,247

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George (Buzz) Carloftis, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Rockcastle County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated October 28, 2008. Rockcastle County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rockcastle County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rockcastle County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rockcastle County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect Rockcastle County Fiscal Court's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of Rockcastle County Fiscal Court's financial statements that is more than inconsequential will not be prevented or detected by Rockcastle County Fiscal Court's internal control. We consider the deficiencies included in the accompanying comments and recommendations as items 2007-01, 2007-02 and 2007-03 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Rockcastle County Fiscal Court's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiencies described above are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Rockcastle County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are included in the accompanying comments and recommendations as items 2007-04, 2007-05 and 2007-06.

Rockcastle County Fiscal Courts' responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit Rockcastle County Fiscal Courts' responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Kentucky Department for Local Government, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 28, 2008

**ROCKCASTLE COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2007

ROCKCASTLE COUNTY
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2007-01 The County Lacks Adequate Segregation of Duties

The Rockcastle County Fiscal Court lacks adequate segregation of duties. We recommend that a qualified office employee, independent of check writing and posting duties, match purchase orders to checks and invoices. Having this person initial the purchase orders and invoices and by making sure these invoices are marked paid can be shown as evidence of segregation of duties. Also, we recommend that the person opening the mail keep a listing of all checks received for that day, detailing the date received, the check amount, whom it is from, and the purpose of the check. This will help segregate the duties of the treasurer. To have better internal controls, the best practice is to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals.

Management's Response: Due to budget constraints, segregation of duties is not possible at this time.

2007-02 The County Should Promptly Mail All Checks When Issued

As of June 30, 2007, \$11,335 of Jail Fund checks were issued and not mailed. We recommend that checks not be issued until funds are available. This would eliminate the need for holding checks.

Management's Response: This has been corrected.

2007-03 The County Should Maintain Minimum Balance In Their Payroll Account

The County's reconciled balance in the payroll account as of June 30, 2007 was \$47,588. The payroll account is a revolving account and should not at any given time have more than a minimum balance after reconciling items are taken into consideration. Payroll liabilities due from this account amounted to \$31,725, resulting in a surplus of \$15,863. We recommend the surplus be transferred to the General Fund.

Managements Response: County agrees with this finding, however the excess funds corrected itself in the subsequent year, and as of June 30, 2008, there were not any excess funds.

STATE LAWS AND REGULATIONS:

2007-04 The County Should Pay Invoices Within 30 Working Days

During the course of our audit, we found numerous invoices that were not paid in a timely manner. KRS 65.140 states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except that when payment is delayed because the purchaser has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. We recommend the county comply with KRS 65.140 by paying invoices within thirty (30) working days.

Management's Response: This has been corrected.

ROCKCASTLE COUNTY
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2007
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2007-05 The County Should Properly Account for Encumbrances

The county did not properly account for encumbrances as required by the Department for Local Government. The county did not include encumbrances on the face of the Fourth Quarter Treasurer's Report. We recommend that the county properly maintain encumbrances as required by the Department for Local Government. The "Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual" states, "Enter the total dollar amount of unpaid purchase orders from the purchase order journal." We recommend the county maintain a purchase order journal in the future and use the amounts from the journal as the encumbrances listed on the quarterly report.

Management's Response: This has been corrected in future years.

2007-06 The County Should Budget for All Expenditures

According to KRS 68.300 expenditures should not exceed amounts budgeted. As of June 30, 2007, Jail Fund expenditures exceeded amounts budgeted by \$633. We recommend that procedures be established to ensure that expenditures do not exceed amounts budgeted.

Management's Response: Due to the timing of the receipt of revenue, we did not have enough time to get a budget amendment. We will try to correct this in the future.

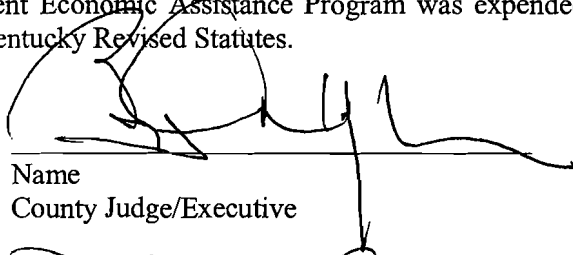
**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

ROCKCASTLE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

**ROCKCASTLE COUNTY
CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
For The Year Ended June 30, 2007**

The Rockcastle County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer